

## **Summary of Testimony of Brian T. Castelli before the House Committee on Energy and Commerce Subcommittee on Energy and Air Quality, November 2, 2005**

### **The Time is Now for Energy Efficiency Measures**

Gasoline prices have doubled in the last couple years, and natural gas prices have quadrupled. A typical Midwest or Northeast household may spend over \$1,000 more for gasoline and \$700 more for winter heating than it did a couple years ago. Although production measures also are necessary, it is time to turn serious attention to the demand side of the equation, to reducing our energy use.

Energy efficiency is now the nation's greatest energy resource— efficiency now contributes more than any other single energy resource to meeting our nation's energy needs, including oil, natural gas, coal, or nuclear power. Energy efficiency is the quickest, cheapest, and cleanest way to meet the anticipated growth in energy demand in the U.S. The enormous contribution of energy efficiency to meeting our energy needs is achieved with little or no negative impact on our wilderness areas, our air quality, or the global climate. Energy efficiency enhances our national and energy security by lessening requirements for foreign energy sources. Further, it is invulnerable to supply disruptions; is rarely subject to siting disputes; is available in all areas in large or small quantities; and generally costs much less than it would to buy additional energy.

### **The Time is Now to Make the Energy Bill Real**

The recently enacted energy bill is really an important to-do list rather than a completed product. Existing federal programs also have a tremendous potential for cost-effective energy savings. Yet the fiscal year 2006 budget request for energy efficiency is down 14 percent after inflation just since 2002. Here are some key implementation and funding needs:

**Consumer education:** The fastest way to address an energy supply shortage, and probably the only way to have a significant impact on prices this winter, is consumer education.

**Tax incentives:** To make the new energy-efficiency incentives effective, we need the implementing rules out as soon as possible, we need to move up the effective dates, and, we need to extend the incentives beyond the two years most are scheduled to last.

**Appliance standards:** We remain very concerned that DOE is years behind deadlines in setting about 20 standards required under law. This program requires effective oversight and increased funding.

**Building codes assistance:** More funding is needed for the Gulf states and for a new program to encourage states to adopt the latest codes and then assist them in achieving high rates of compliance.

**State and utility energy-efficiency programs:** Funding is needed for an innovative new pilot program to assist several states in the design and implementation of energy efficiency resource programs programs.

**Federal energy management:** More funding is needed for DOE's Federal Energy Management Program to ramp up ESPC use and to undertake other activities required in the energy bill.

### **The Time is Now to Move Beyond the Energy Bill**

There is a gaping hole in the energy bill where transportation policies should be. The Alliance estimates that the energy bill will save virtually no oil. Two policies that could be as effective as a straightforward increase in Corporate Average Fuel Economy (CAFE) standards are:

***Close CAFE loopholes:*** Several reforms are needed to close major loopholes and bring actual fuel economies closer to current standards: base CAFE on realistic testing of fuel economy, treat SUVs and minivans like the passenger vehicles they are, include heavier SUVs under CAFE, and treat “dual-fuel” vehicles based on actual alternative fuel use.

***Vehicle fuel use “feebate”:*** A new, innovative approach to efficiency of cars and light trucks is a national feebate system. Such a system would impose a national security surcharge, or “fee” on inefficient vehicles, and then use the funds collected to provide a “rebate” to fuel efficient vehicles.

There also are a number of other policies to save natural gas that should be reconsidered in light of sharply higher natural gas prices. The Alliance recommends two sets of policies:

***Federal building codes:*** The energy bill passed over several opportunities to improve standards for buildings regulated by or paid for by the federal government. They include standards for manufactured housing, new public housing and new housing with federally subsidized mortgages, subsidized rebuilding after disasters, and privatized military housing.

***State and utility energy-efficiency programs:*** Energy efficiency resource standards (EERS) in several states now require electricity and natural gas utilities to meet customer needs in part through demand-side management programs rather than by constructing new facilities and purchasing energy. A requirement that state PUCs consider this and other energy efficiency policies would save natural gas.

Energy efficiency is our largest energy resource, and it should be our first energy priority. We hope you will both work to ensure the fine energy-efficiency provisions of the last energy bill are fully funded and implemented, and use the increasing pressure for action to fill the gaping holes in that bill.

**Testimony of**  
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**Executive Vice President and COO,**  
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**U.S. House Committee on Energy and Commerce**  
**Subcommittee on Energy and Air Quality**  
  
**November 2, 2005**  
  
**Energy Efficiency as a Natural Gas and Heating Oil Resource**

**Introduction**

My name is Brian T. Castelli and I serve as the Executive Vice President and Chief Operating Officer of the Alliance to Save Energy, a bipartisan, nonprofit coalition of more than 90 business, government, environmental and consumer leaders. The Alliance's mission is to promote energy efficiency worldwide to achieve a healthier economy, a cleaner environment, and greater energy security. The Alliance, founded in 1977 by Senators Charles Percy and Hubert Humphrey, currently enjoys the leadership of Senator Byron Dorgan as Chairman; Washington Gas Chairman and CEO James DeGraffenreidt, Jr. as Co-Chairman; and Representatives Ralph Hall, Zach Wamp and Ed Markey and Senators Bingaman, Collins and Jeffords as its Vice-Chairs. Attached are a list of the Alliance's Board of Directors and its Associate members, which I respectfully request be included in the record as part of this testimony.

**The Time is Now for Energy Efficiency Measures**

The startling and immediate effects of Hurricanes Katrina and Rita on energy prices have dramatically highlighted our need to bring energy supplies and energy demand into balance. In the immediate wake of Katrina, gasoline prices nationwide shot up over \$3 a gallon for the first

time. While they have since dropped slightly, they are still almost double prices at the beginning of 2004. Heating oil prices have risen similarly. Natural gas prices have gone up even more. Spot natural gas prices doubled between 2002 and the beginning of this year, doubled again by the end of August, and are still rising to record highs.

These prices are causing real hardship for the American people. At current gasoline prices, a typical two-car household would spend over \$1,000 more for gasoline than it did in 2004. And with winter approaching, the squeeze on American wallets will only increase. The U.S. Energy Information Administration expects natural gas heating costs for a typical Midwestern household to rise \$500 (61 percent) this winter compared to last year and \$700 (107 percent) compared to the 1999-2004 average. Northeastern heating oil costs are expected to rise \$400 (31 percent) compared to last year, and \$700 (80 percent) compared to the 1999-2004 average. Some households already living on a tight budget will not be able to pay these costs and still have adequate funds to pay for food and rent. At the same time, natural gas prices are forcing chemical and fertilizer companies to shut down plants in the United States and move those jobs overseas.

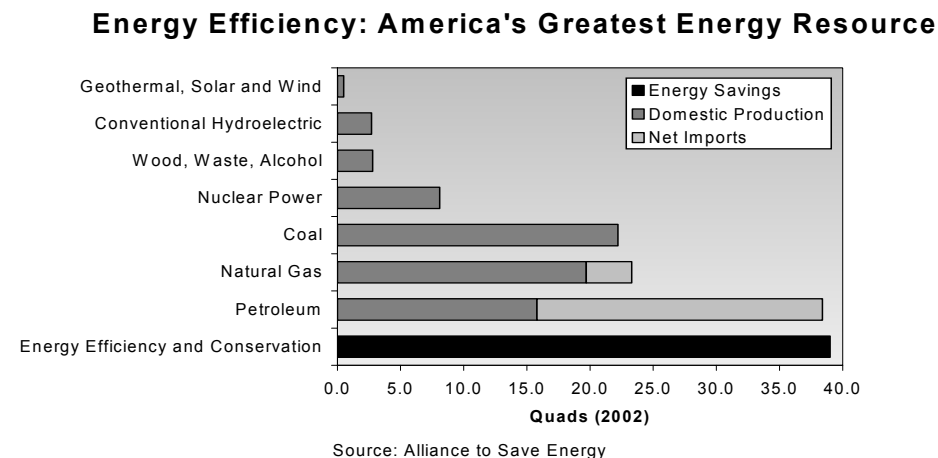
While the hurricanes have highlighted the problem, the fundamental causes are not going away so quickly. Energy prices are soaring because America's gluttonous energy consumption is outstripping supply. The United States has only 2 percent of the world's known oil reserves, and 5 percent of the world's people, but uses 25 percent of the world's oil. And now the same pattern is being repeated with natural gas.

Although measures to increase energy supplies are necessary, we must not fool ourselves into believing that we can produce our way out of the problem. U.S. production of oil and of natural gas is lower than it was in 1970, while our energy consumption has steadily risen. Even the

National Petroleum Council has concluded that natural gas supplies from traditional North American production will not be able to meet projected demand, and that “greater energy efficiency and conservation are vital near-term and long-term mechanisms for moderating price levels and reducing volatility.” It is time to turn serious attention to the demand side of the equation, to reducing our energy use.

## **Energy Efficiency is America’s Greatest Energy Resource**

Energy efficiency is the nation’s greatest energy resource— efficiency now contributes more than any other single energy resource to meeting our nation’s energy needs, including oil, natural gas, coal, or nuclear power. The Alliance to Save Energy estimates that without the energy efficiency gains since 1973 we would now be using at least 39 quadrillion Btu more energy each year, or 40% of our actual energy use. Much of these savings resulted from federal energy policies and programs like appliance and motor vehicle standards, research and development, and the Energy Star program.



Energy efficiency is the quickest, cheapest, and cleanest way not only to tackle our current energy cost issues, but also to meet the anticipated future growth in energy demand in the U.S. The enormous contribution of energy efficiency to meeting our energy needs is achieved with

little or no negative impact on our wilderness areas, our air quality, or the global climate. Energy efficiency enhances our national and energy security by lessening requirements for foreign energy sources. Further, energy efficiency is invulnerable to supply disruptions; is rarely subject to siting disputes; is available in all areas in large or small quantities; and generally costs much less than it would to buy additional energy.

Energy-efficiency and conservation measures have a proven track record of balancing demand and supply much faster than drilling, constructing power plants, or new import facilities. When a series of rolling blackouts and electricity price spikes hit California in 2000-2001, the state undertook a massive electricity efficiency outreach campaign that reduced peak summer power demand by 10 percent and reduced overall electricity use by 7 percent in less than a year, thus helping avoid further shortages. The cost was just 3 cents per kWh. The American Council for an Energy-Efficient Economy estimates that a small decrease in natural gas demand (2-4 percent) could result in a decrease in wholesale natural gas prices of as much as 25 percent over the next few years, with vast savings for consumers and energy-intensive industries.

### **The Time is Now to Make the Energy Bill Real**

Many of the policies needed to increase use of energy efficiency as a major energy resource are enacted, and many of the programs are in place. But these policies must be carried out, and the programs must be funded, or they will do no good. In particular, the recently enacted energy bill (the Energy Policy Act of 2005, P.L. 109-58) is really an important “to-do list,” rather than a completed product. The Alliance to Save Energy estimates that the new energy law could save 5 percent of all U.S. energy use by 2020, and a higher percentage of natural gas—if it is fully implemented and funded. If the law is widely ignored, the savings will be a fraction of that amount.

Existing federal programs also have a tremendous potential for energy savings. A 2001 National Research Council report found that every dollar invested in 17 Department of Energy (DOE) energy efficiency research and development (R&D) programs returned nearly \$20 to the U.S. economy in the form of new products, new jobs, and energy cost savings to American homes and businesses. Environmental benefits were estimated to be of a similar magnitude. DOE itself estimates that its efficiency and renewables programs will result in major savings, including \$134 billion in energy bills, 157 GW of avoided new conventional power plants, 1.9 quads of natural gas, and 213 MMTC of greenhouse gas emissions in 2025. Yet the fiscal year 2006 budget request for energy efficiency is down 14 percent after inflation just since 2002, and core research and development funding (excluding grants and the fuel cell FreedomCar program) is down 31 percent in those four years.

Following are some key implementation and funding needs for programs that have the potential to save large quantities of natural gas and, in some cases, oil. Note that one of the most effective ways of reducing natural gas consumption is to reduce electric demand, as most peaking power plants and most new power plants are fueled by natural gas. Similarly, any reduction in the consumption of oil products (gasoline, jet fuel, etc) helps reduce the stress on heating oil supplies.

***Consumer education:*** As was demonstrated in California, the fastest way to address an energy supply shortage, and probably the only way to have a significant impact on prices this winter, is consumer education and associated incentive programs. In particular, there is an immediate need for funding for the energy efficiency public information campaign authorized in the energy bill section 134. This important program was authorized by the Congress at \$90 million per year, from fiscal year 2006 through fiscal year 2010. It is intended to provide consumers with energy

saving tips like maintaining and repairing heating and cooling ducts and equipment, insulating and weatherizing homes and buildings, properly maintaining tires and cars, and purchasing energy-efficient products and equipment. Importantly, the program could ensure that consumers and businesses are made aware of the important energy-efficiency tax incentives included in the energy bill (see below). It also could be coordinated with, and could support, other programs, including the appliance rebate program and state demand-side management programs. Coupling such efforts would optimize use of federal funding and ensure the greatest impact in terms of changing consumer behavior.

Additional funding is equally important for the Energy Star program. Energy Star is a successful voluntary deployment program at EPA and DOE that has made it easy for consumers to find and buy many energy-efficient products. Energy Star is the best demonstration of how effective government consumer education can be. For every federal dollar spent, Energy Star produces average energy bill savings of \$75 and sparks \$15 in investment of new technology. Last year alone, Americans, with the help of Energy Star, prevented 30 million metric tons of greenhouse gas emissions – equivalent to the annual emissions from 20 million vehicles, and saved about \$10 billion on their utility bills.

***Tax incentives:*** The energy bill included important tax incentives for highly energy-efficient new homes, improvements to existing homes, commercial buildings, heating and cooling equipment, appliances, and hybrid vehicles. These incentives for consumers and businesses have the potential to help transform markets to embrace energy-efficient technologies and thus to help the best buildings, vehicles, and equipment become mainstream.

However, there are several immediate needs to make these incentives effective. First, IRS, with the assistance of DOE, must get the implementing rules out as soon as possible. Many important

details and interpretations were left to the agencies. We also hope these rules will make determining eligibility and applying for these incentives as simple as possible. Without clear rules and procedures, only “free-riders”—those who were going to buy the products anyway—likely will take a chance on the incentives, and the opportunity for meaningful and sustainable market transformation will be lost.

Second, we need to move up the effective date of the incentives from January 1, 2006. Under current law consumers that want to put in a better furnace or new windows need to wait until next year, well into the winter heating season, if they want to take advantage of the incentives. We already have begun consumer education programs aimed at winter heating; however, we are reluctant to inform consumers of the “soon-to-be available” incentives, as purchases that are important to managing energy use and costs this winter may be delayed until the current effective date of the incentives. This creates a conundrum, as the incentives are an important tool to change consumer behavior, but represent a potential barrier to immediate action, which is what we are seeking to encourage.

Third, we need to extend the incentives beyond the two years most are scheduled to last. It is almost impossible to plan and build a commercial building in two years, so large segments of the market are effectively excluded from the incentive by the short time horizon. For the best-selling hybrid vehicles, the tax incentives may have an even shorter horizon, as the law includes a per-manufacturer phase-out triggered by the sale of 60,000 eligible vehicles. The incentives were mostly planned to last four to five years, and their effectiveness will be multiplied if the eligibility is extended and the manufacturer vehicle volume cap is removed or increased.

***Appliance standards:*** National appliance and equipment efficiency standards provide an efficiency baseline that American consumers can trust, provide uniform national rules for

manufacturers, and slash wasteful energy consumption with one broad and effective stroke. The federal appliance standards program has been among the most effective of all efficiency measures. The program already has saved an estimated 2.5 percent of all U.S. electricity use and saved consumers billions of dollars in energy bills.

The energy bill includes a package of fifteen new energy-efficiency standards that were negotiated between energy-efficiency advocates, product manufacturers, and states. DOE is required to set standards for additional products, as well as to update many of the standards set in law.

The Alliance is pleased that DOE recently codified the legislated standards in rules. However, we remain very concerned that DOE is years behind the statutory deadline for setting about 20 standards required under previous laws. For example, an updated standard for residential furnaces and boilers was due in 1994. This is one of DOE's highest priorities as it is one of the most effective ways to save natural gas. The most recent delay, announced last December, means that DOE will not set this standard until late 2007 at the earliest, and that the standards will not go into effect until at least 2010. According to the American Council for an Energy-Efficient Economy, each year of delay in just three of these national standards—residential furnaces and boilers, distribution transformers, and commercial air conditioners and heat pumps—has locked in \$7.1 billion in higher energy costs for consumers and businesses.

Largely due to the delays in the DOE program, a number of states are setting state standards on products not regulated by the federal government in order to reduce the cost, reduce the environmental impact, and increase the reliability of their energy systems. In addition, the work on state standards has been a key incentive to reaching agreements on federal standards.

The new energy bill adds additional standards to DOE's list of responsibilities. Even the legislated standards require test procedures that were not included in DOE's recent rulemaking. This program requires effective and vigilant oversight. In addition, as establishing standards requires a rigorous, time consuming, and costly rulemaking process, increased funding to the DOE standards program is critical to ensuring that the enormous potential of this program is achieved.

We are disappointed that this committee recently amended the budget reconciliation bill to preempt all state standards on digital television adaptors, opting instead for very weak efficiency criteria on those DTAs subsidized by the federal government. This action, which preempts effective state DTA standards that already are in place or are under consideration by states, would establish a terrible precedent as well as increasing energy use and costing consumers millions of dollars. I hope the committee will reconsider its support.

***Building codes assistance:*** While residential and commercial building codes are implemented at the state level, the states rely on DOE for technical specifications, training, and implementation assistance. Full adoption of and compliance with up-to-date building codes could save almost as much energy as appliance standards. The energy bill includes an authorization of \$25 million per year for building codes assistance to states. Part of the funding increase would be for a new program to encourage states to adopt the latest codes and then assist them in achieving high rates of compliance. Such assistance is especially critical in the Gulf states to ensure that the massive rebuilding in the wake of the hurricanes is performed at least to minimally acceptable efficiency standards. We urge funding for this program.

In addition, we are concerned that DOE is significantly behind in providing information and guidance to the states on both residential and commercial building energy codes. DOE is

required within one year of a residential or commercial model energy code update to make a determination on whether that update save energy; however, DOE still has not made the required determinations on the 2003 residential IECC, the 2004 Supplement, the newly adopted 2006 IECC, the 2001 ASHRAE commercial standard, or the 2004 ASHRAE standard. DOE must apply the necessary human and financial resources to ensure timely determinations on the codes.

***State and utility energy-efficiency programs:*** Over the last two decades, states worked with regulated utilities using “Integrated Resource Planning” and demand-side management programs to avoid the need for about 100 300-Megawatt (MW) power plants. However, utility spending on public benefit programs nationwide has been cut significantly since the mid-1990’s. In recent years some states have adopted innovative policies to rebuild these programs, including public benefits funds, energy efficiency performance standards, incentive rate structures, and priority in infrastructure planning. But the benefits of these programs have not spread to many other states.

The energy bill requires a study by DOE along with the National Association of Regulatory Utility Commissioners (NARUC) and the National Association of State Energy Officials (NASEO) of “best practices” among the states in demand side management (DSM) and other energy efficiency resource programs (Sec. 139). In addition, it authorizes \$5 million per year for an innovative new pilot program to provide funding assistance to several states (3 to 7) to assist in the design and implementation of energy efficiency resource programs designed to lower electricity and natural gas demand by 0.75% a year. Again, funding is needed for this program.

***Federal energy management:*** America’s largest, single energy consumer is the federal government. According to the 1998 Alliance to Save Energy report, *Leading by Example: Improving Energy Productivity in Federal Government Facilities*, the federal government wastes \$1 billion in taxpayer dollars each year on its buildings that use energy inefficiently.

DOE's Federal Energy Management Program (FEMP) is a rare example of a program that actually saves the government money. At an average cost of \$20 million per year, FEMP has helped cut federal building energy waste by nearly 21 percent from 1985-1999—a reduction that now saves federal taxpayers roughly \$1 billion each year in reduced energy costs. However, much more can be done, and the added targets, standards, and authorities in the energy bill will help.

We are especially pleased that the energy bill extended authority for Energy Savings Performance Contracts (ESPCs) through FY 2016. This unique program allows federal agencies to contract with the private sector to upgrade the efficiency of federal buildings. The contractors put up the money for the improvements and are paid back out of the utility bill savings. By law the payments can be no more than the savings. The agency saves energy at no additional cost, the companies build their business and create jobs, and the government saves money and pollution. Unfortunately, the ESPC program is still trying to get back on its feet after its authorization lapsed for a year in 2004.

The advice and assistance of FEMP is critical to the success of this program. FEMP support also is necessary for successful implementation of other federal energy management provisions in the energy bill—to provide guidance on building metering (“You can't manage what you can't measure”), help agencies comply with the product procurement rules, and help agencies meet the overall energy reduction targets. Without FEMP's support, the federal energy management title probably is not worth the paper it is printed on. More funding is needed to ramp up ESPC use and to undertake these other activities.

## **The Time is Now to Move Beyond the Energy Bill**

Although the energy bill includes a number of programs with the potential to save natural gas, of course many other effective policies were not included. And even though the major authors of the bill all cited high gasoline prices as a key rationale for the bill, there is a gaping hole where transportation policies should be. The Alliance estimates that the energy bill will save virtually no oil—small savings from the hybrid tax credit and other policies will be roughly canceled out by the extension of the fuel economy standard loophole for “dual-fueled” vehicles. This hole was noted by virtually every major editorial page in the country, and even noted by the authors of the bill as gasoline prices jumped even higher in the wake of Hurricane Katrina.

We cannot afford to wait thirteen years for another energy bill to fill in this hole, or another thirty years for an effective transportation policy. The economic, environmental, and national security costs of our insatiable oil demand are too high. While the Alliance recognizes that politically this is one of the most difficult areas to address, we must act now to bring our oil use under control.

## **Additional Opportunities for Oil Savings**

The Alliance recommends consideration of two policies that could be as effective as a straightforward increase in Corporate Average Fuel Economy (CAFE) standards, and we hope will be more politically palatable:

***Close CAFE loopholes:*** CAFE standards passed by Congress in 1975 led to a 70 percent increase in America’s gas mileage over the subsequent decade. However, CAFE standards have remained static for almost two decades due to political gridlock. The current standards of 27.5 miles per gallon for automobiles and 21 mpg for light trucks are roughly the same as in the mid-1980s. Furthermore, real on-road fuel economies are much lower than those numbers would

suggest—the average fuel economy of cars and light trucks is only around 20 mpg. And as the sales of SUVs have exploded, *average vehicle fuel economy has actually declined since 1988*. Even if the political will to raise CAFE standard numbers does not exist, there are several reforms that could close major loopholes and thereby bring actual fuel economies closer to standards already required under existing law:

- ***“Truth-in-testing” loophole:*** By law, CAFE is based on the fuel economy tests that were used for model year 1975. EPA recognized that those tests are inaccurate, and in 1984 started reducing reported fuel economies by about 15%. Because driving patterns have changed, real gas mileage is likely 20-25% below CAFE numbers. Testing procedures for CAFE need to be updated to reflect increased congestion, higher speed limits, use of air conditioning, more powerful vehicles, and other changes.
- ***“SUV” loophole:*** When light trucks were given a lower standard, pickup trucks and vans were used primarily for businesses and farming, and represented only about 20% of vehicles sold. Today, about half of all light-duty vehicles sold in America qualify as “light trucks” for CAFE. Most of those are SUVs and minivans, most are used as passenger or family vehicles, and they average roughly 40% more fuel for each mile driven than the average passenger car. SUVs and minivans should be reclassified as what they are: passenger vehicles.
- ***“Hummer” loophole:*** CAFE standards only apply to vehicles under 8,500 pounds (gross vehicle weight). In fact, EPA does not even test or report the fuel economy of larger vehicles, yet their mileage is generally much lower. Manufacturers are selling more and more of these super-large SUVs and pickup trucks, such as GM Hummers and Ford Excursions. CAFE standards should cover these heavier vehicles.

- ***“Dual fuel” loophole:*** Automakers that produce vehicles that can run either on gasoline or on an alternative fuel, usually ethanol, can claim CAFE credit as if the vehicles ran on the alternative fuel one-half of the time. Unfortunately, dual fueled vehicles today run on gasoline 99% of the time. With only a few hundred ethanol fueling stations, the infrastructure does not exist to supply these vehicles with ethanol. This credit has allowed manufacturers to put more gas guzzlers on the road, and thus increases gasoline use. It should be modified to require actual use of the alternative fuel.

***Vehicle fuel use “feebate”:*** A new, innovative approach to efficiency of cars and light trucks is a national “feebate” system. Such a system would impose a national security surcharge, or “fee” on inefficient vehicles, and then use the funds collected to provide a “rebate” to fuel efficient vehicles.

How would a national feebate work? In one approach, a fee or rebate would apply to manufacturers of all new light-duty passenger vehicles—including SUVs and minivans. The amount would be based on 25 cents per gallon of gasoline estimated to be used over the lifetime of the vehicle. The fee or rebate would then be determined relative to a mid-point fuel economy. This dividing line between fees and rebates would be set each year such that the total fees would just pay for all the rebates, so there would be no net revenue or cost to the government.

A feebate would create an incentive for manufacturers to use fuel-efficient technologies in the vehicles they produce, and hence should increase the availability of efficient vehicles, as well as creating an incentive for consumers to purchase more efficient vehicles. As fuel economies increased, the mid-point fuel economy would be ratcheted up, creating an incentive for continual improvement, but never out of line with the existing market.

## **Additional Opportunities for Natural Gas Savings**

As I mentioned, there also are a number of other policies to save natural gas that should be reconsidered in light of sharply higher natural gas prices. The Alliance recommends consideration of two additional sets of policies.

***Federal building codes:*** Although the energy bill requires new, stricter standards for energy efficiency in buildings owned by the federal government, it passed over several opportunities to improve standards for buildings regulated by or paid for by the federal government. These standards could help transform the housing market and make the federal government into a market leader rather than a market laggard. They include:

- ***Manufactured housing:*** Even before the hurricanes, “mobile homes” accounted for 131,000 buildings last year, about one in twelve new homes. Because they are manufactured in central factories, they are regulated not by the states but by the federal Department of Housing and Urban Development (HUD). Like many states, HUD is years behind in adopting up-to-date building codes—their standard has not been modified since 1996. These buildings are used like site-built homes. There is no reason they should not meet the same current model energy code. Setting this floor would reduce the energy bills of mobile home owners, many of whom are low income and many of whom rely on federal LIHEAP assistance, by 9 percent.
- ***Federally subsidized housing:*** New public housing and new housing with federally assisted mortgages also must meet a federal standard, currently the 1992 Model Energy Code as set in the Energy Policy Act of 1992. This standard should be updated to the most recent model codes. Rebuilding with federal subsidies in the wake of the recent hurricanes and other natural disasters also should be subject to a federal standard to ensure recipients receive high-

quality homes and that neither the victims nor the federal government pay for unnecessarily high energy bills. To ensure cost-effective energy savings based on criteria with which local builders and manufacturers are already familiar, both manufactured and site-built homes built with federal disaster assistance should qualify for the Energy Star label.

- ***Privatized military housing:*** About 37,000 units of housing are being built each year with federal assistance in order to move service members out of the barracks and into newer private housing. The federal government indirectly pays the energy bills through an energy allowance. We should require that this housing too qualify for the Energy Star label.

***State and utility energy-efficiency programs:*** As described above, a number of states are implementing innovating energy-efficiency policies and funding mechanisms. Several states have recently passed an energy efficiency resource standard (EERS), requiring electricity utilities to meet customer needs in part through demand-side management (energy efficiency and load reduction) programs rather than by constructing new facilities and purchasing energy. An EERS sets a specific target for demand or use reduction due to DSM programs, and requires monitoring and verification of the program savings. The programs have generally been found to save electricity much more cheaply than it could be generated and delivered. Several of the states are now implementing an EERS as part of or alongside renewable electricity generation standards.

The Senate bill included a requirement that state PUCs consider this and other energy efficiency policies. This directive also was included in the Energy Efficiency Cornerstone Act (HR 3263), sponsored by the Alliance Vice-Chairs in the House, Reps. Wamp, Hall, and Markey, and by a number of other members including Reps. Allen, Sherrod Brown, Gonzalez, Green, Murphy, and Heather Wilson. This provision could be an effective tool to save natural gas around the country. We urge its renewed consideration.

## **Conclusion**

Energy efficiency is our largest energy resource, and it should be our first energy priority.

American consumers need a balanced energy policy that takes aggressive steps to save energy wherever and whenever it is cost-effective and feasible.

Many of the policy options identified by the Alliance, such as standards, tax incentives, and federal energy management, have been proven effective on the national level. Federal programs that support research, development, and deployment of energy-efficient technologies also have proven effective and deserve greater funding. Other policies, such as those targeted at the transportation sector, are sorely needed to ensure a secure and sustainable energy future in the U.S..

The Alliance to Save Energy applauds the fact that this committee is willing to wade back into the rough waters of energy policy. With respect to energy efficiency provisions, which must be a cornerstone of any such energy policy, we hope you will both work to ensure the fine provisions of the last energy bill are fully funded and implemented, and use the increasing pressure for action to fill the gaping holes in that bill. Additional administrative and legislative action to save natural gas and oil is the only way to assure that we give the American people immediate, cost-effective and sustainable assistance in addressing spiraling energy costs and an ever-less secure energy future.